Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. 01-31 Phase II (Track B)

Respondent: <u>William E. Taylor</u>
Title: <u>Senior Vice President, NERA</u>

REQUEST: Department of Telecommunications and Energy, Set #4

DATED: October 1, 2002

ITEM: DTE-VZ 4-1   Please provide your best estimate of the short-run and long-run own-price elasticity of demand for each of the following Residence Basic Services listed in Verizon MA's Compliance Filing (Tab A, Attachment A). Also include the most recent estimates of the short-run and long-run incremental cost of providing each of these services. Please supply the data analyzed and the method employed to arrive at the estimate, and the sources from which the estimates themselves, or the underlying data, are derived.

a.   Dial Tone Line Exchange
b.   Unlimited Usage 1 Party
c.   Unlimited Usage 2 Party
d.   Measured Local Usage 128 LATA – Zone 1 and 2 per message
e.   Measured Local Usage 128 LATA – Zone 1 and 2 per minute
f.   Measured Local Usage 413 LATA – per message
g.   Measured Local Usage 413 LATA – peak per minute
h.   Measured Local Usage 413 LATA – off-peak per minute
i.   Element 2
j.   Metropolitan Service
k.   Suburban Service
l.   Circle Calling
m.   Expanded Community Calling Service
n.   Expanded Community Calling Plus Service
o.   Other Service Charges Residence – Suspension and Restoral

REPLY: Neither Dr. Taylor nor Verizon MA has any estimate of the own-price elasticity of demand for the residence basic services listed above.

REPLY: DTE-VZ 4-1   Dr. Taylor has, however, testified in this proceeding that most
(cont'd)   informed industry observers would agree that residential basic service
has always been the least elastic service offered by a telephone
company and that recent competitive events in the industry are unlikely
to change that relationship.

Please see Attachment A of Ms. Paula Brown's Rebuttal Testimony
(September 18, 2002) for marginal cost data.

VZ # 310

Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. 01-31 Phase II (Track B)

Respondent: William E. Taylor
Title: Senior Vice President, NERA

REQUEST: Department of Telecommunications and Energy, Set #4

DATED: October 1, 2002

ITEM: DTE-VZ 4-2   Given a range encompassing a price floor of incremental cost, which
recovers zero percent of joint and common costs, and a ceiling of
stand-alone cost, which recovers one hundred percent of joint and
common costs; and based on your estimation of the own-price
elasticities of demand and incremental cost for each of Verizon MA's
Residence basic Service offerings, please calculate the proportion of
joint and common costs that should be recovered by each service in
accordance with Ramsey pricing principles. Also, please specify the
efficient prices that result from this application of Ramsey pricing
principles.

REPLY: Please see Verizon MA's response to DTE-VZ 4-1.

VZ # 311

Respondent: <u>Paula L. Brown</u>
Title: <u>Vice President Regulatory</u>

REQUEST: Department of Telecommunications and Energy, Set #4

DATED: October 1, 2002

ITEM: DTE-VZ 4-3   Please see Verizon MA's response to DTE-VZ 2-1: Please explain how the elimination of the Collocation, PAL, and PASL re-pricing from the Dial Tone Line offset calculation would increase the offset from $1.97 to $1.98.

REPLY: The re-pricing of PAL and PASL results in an increase in Verizon MA revenues while the re-pricing of Collocation results in a decrease in revenues. When Collocation, PAL and PASL price changes are added together there is a net increase in revenues.

The revenue effects of re-pricing Switched Access, Collocation, PAL and PASL are calculated in Ms. Brown's Testimony (August 28, 2002), Attachment A, Tab B, Attachment I, Workpaper 1, Lines 22a, 22b, 22c and 22. That display demonstrates that the total revenue to be offset is $60,896,785, with a corresponding per-line offset of $1.97 per month (line 24).

If the Collocation, PAL and PASL effects (lines 22b and 22c) are eliminated from the calculation, the total revenue to be offset increases to $61,225,920. The new total divided by the access lines incurring the offset, then divided by 12, produces a per-line offset figure of $1.98 per month.

VZ # 312

**Verizon New England Inc.
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Commonwealth of Massachusetts

D.T.E. 01-31 Phase II (Track B)

Respondent: <u>William E. Taylor</u>
Title: <u>Senior Vice President, NERA</u>

REQUEST: Department of Telecommunications and Energy, Set #4

DATED: October 1, 2002

ITEM: DTE-VZ 4-4 Please see Verizon MA's response to AG-VZ 3-1(B): Please explain Dr. Taylor's response, "Reported markups of price over cost are the reverse of what an economist would expect if prices were based on Ramsey principles."

REPLY: Please see Verizon MA's response to DTE-VZ 4-1. An inspection of the data provided in Verizon MA's response to Information Request AG-VZ 3-16(A) generally reveals that the prices of more elastic services (i.e., toll usage services) are marked up more than the prices of more inelastic (i.e., dial-tone services). Following Ramsey principles, the price mark up of more inelastic services should exceed the price markup of more elastic services.

VZ # 313